

Dow Jones Reprints: This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Order Reprints tool at the bottom of any article or visit [www.djreprints.com](http://www.djreprints.com)

[See a sample reprint in PDF format.](#)

[Order a reprint of this article now](#)

**THE WALL STREET JOURNAL.**

WSJ.com

REAL ESTATE | OCTOBER 7, 2008

# California Officials Try to Avoid Second Housing Hit

By RHONDA L. RUNDLE

Parts of Southern California hit hard by the housing crisis are maneuvering to shape the Treasury Department's plan to buy up troubled assets so that it doesn't wind up causing a second wave of pain in their communities.

Officials in San Bernardino and Riverside counties are determined to avoid a repeat of what happened 20 years ago, when the savings-and-loan crisis led to a massive selloff of distressed real estate in the area by the federal government's Resolution Trust Corp. Many of those properties, including foreclosed homes, were sold at fire-sale prices to investors who unloaded them quickly. In some cases, entire neighborhoods of what had once been homeowners turned into largely rental communities, further depressing property values and delaying an economic rebound.

"We don't want the cure to be worse than the disease," said Steve PonTell, a business owner in the vast area east of Los Angeles known as the Inland Empire. He said he is worried that neighborhoods could be seriously damaged if the Treasury "dumps" real-estate assets in such a way that leads to absentee ownership.

Government representatives in the area are now scrambling to muster support for a federal bill that would allow local businesses and governments to buy up some of the real estate to make sure it doesn't fall into the hands of speculators who have no stake in the community. The bill, introduced Sept. 27 by Rep. Gary Miller, a Republican who represents some of the areas in Southern California hurting from the mortgage meltdown, promotes the formation of regional public-private partnerships that could buy homes in their geographic area from the Treasury. This approach, they argue, would help stabilize neighborhoods and maximize financial returns to taxpayers.

In the wake of the 1990s savings-and-loan crisis, said Patrick Morris, mayor of San Bernardino, "Our city was so severely impacted by the drama that we moved from a city of owner-occupied homes to a city of renters."

The concern in parts of Southern California illustrates the risks that could lie ahead for other communities as the Treasury begins a massive churn of assets. Depressed real-estate values in areas across the country could slide further if homes are sold to large financial investors who then flip them to others who want to make a quick profit.

Mr. Miller said he tried unsuccessfully to get his bill incorporated into last week's federal rescue package. He said he has spoken to other members of Congress who support the bill and that there is still time to debate the measure when Congress reconvenes in January.

"The U.S. government is now in the real-estate business," he said in an interview. In order to make a smart investment, the Treasury should try to ensure that the real estate gets sold back into the local communities, he said. "We need to look at this as a business deal for the American people."

In many parts of the Inland Empire, memories of the problems that erupted two decades ago are still fresh. In Moreno Valley, one of the communities where the RTC bought up numerous properties in the early 1990s, Jeff Burum, who at the time was a financial consultant to some large Wall Street investors, recalls that many homes that were taken back and sold or held by the RTC weren't properly managed and were allowed to deteriorate. Kids would break in and have parties on Friday nights. When windows broke, they weren't repaired. When neighbors tried to get them replaced, their phone calls wouldn't be returned, or they would be told by a local listing broker that "we don't manage the assets," said Mr. Burum, now chairman of Diversified Pacific, a Rancho Cucamonga, Calif., home builder.

The result was that property values in Moreno Valley fell below their already depressed values. Homes that sold for \$120,000 to \$150,000 fell to \$100,000 during the downturn, but declined to \$75,000 after too many homes were dumped onto the market at one time, he said.

Stan Ross, chairman of the University of Southern California's Lusk Center for Real Estate, said places like Moreno Valley already were suffering from substantially reduced values when the RTC took control. "It's so easy to blame the government in these situations," he cautioned.

Counties such as Riverside and San Bernardino are already trying to gear up for what is expected to be a massive real-estate sale once the Treasury program gains steam. Last week, they passed resolutions supporting the formation of the "Regional Asset Value Recovery Corporation," an Inland Empire partnership to "preserve and restore neighborhoods and communities."

So far, the initiative has backing from about 30 business owners and 15 cities in the two counties, all of them with the potential to become investors in the partnerships, said Lance Larson, legislative director for San Bernardino County. The partnerships could seek additional support from other investors and from California Gov. Arnold Schwarzenegger, Mr. Miller said.

Other regions that are suffering high levels of foreclosures, especially in Florida, are expected to explore forming their own partnerships.

Mr. Miller's hastily written bill, H.R. 7189, is vague about how the proposed public-private partnerships would work. It would allow the Treasury to retain a stake in any of the properties that the partnerships acquire. Mr. Miller argues that the local partnerships would have better odds of ensuring that the assets rise in value, thus allowing the Treasury to retain a stake and "greatly improve the likelihood that the federal government makes a profit."

One of the biggest challenges, however, will be the unbundling of assets intertwined with various kinds of complex securities. In order to attract regional buyers, the Treasury would first have to group different assets by geography.

**Write to** Rhonda L. Rundle at [rhonda.rundle@wsj.com](mailto:rhonda.rundle@wsj.com)